



**Moqhaka Local Municipality
Annual Financial Statements
for the year ended 30 June 2020**

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Jurisdiction Number	Municipal demarcation code FS201
Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998). Moqhaka Local Municipality is situated within the southern part of the Fezile Dabi District in the Free State province. The seat of local government is Kroonstad.
Nature of business and principal activities	Moqhaka is a local municipality performing functions as set out in the constitution (Act 105 of 1996).
Mayoral committee Executive Mayor Speaker Council Whip	Phooko, P (Appointed: 24 May 2019) Chakane, MS Khiba, SV
Members of the Mayoral Committee	Green, MM Kokami, KL Magadlela, ZS Manefeldt, ZJC Mokoena, S Moletsane, ER Mpondo, VL Rooskrans, B Tladi, SB
Grading of local authority	The Moqhaka Municipality is a grade 4 Local Authority in terms of item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998.
Accounting Officers	Mqwathi, MS Monyaki, SJ (Acting)
Chief Finance Officer (CFO)	Marumo, T
Registered office	Municipal Offices Hill Street Kroonstad 9499
Business address	Municipal Offices Hill Street Kroonstad 9499
Postal address	PO Box 302 Kroonstad 9500
Bankers	ABSA Bank Limited
Auditor	Auditor General of South Africa
Attorneys	Du Randt & Louw Majavu Incorporated Poswa Incorporated Tsetetsi & Mochunu Incorporated

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General Information

Preparer

The Chief Financial Officer

Members of council

Baba, JM
Boeiye, HME
Bolofo, LD
Dalton, CM
Geldenhuis, J
Hattingh, JM
Khasudi, D
Khunyeli, JM
Leboko, OA
Lithupa, MJ
Makae, HG
Makhanda, ML
Mahlatsi, MS
Mahlatsi, JR
Malejoane, AM
Marako, TJ
Mareka, J
Mntuze, ME
Mohoaladi, ME
Mpele, MPE
Mokotedi, MV
Muller, ND
Nhlapo, M
Nzunga, DN
Pietersen, ML
Pittaway, SH
Ramathibe, BS
Ramajoe, EL
Serapela, DJ
Thajane, MI
Van Schalkwyk, L
Viljoen, AH
Yho-Yho, M

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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The following supplementary information does not form part of the annual financial statements and is unaudited:

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COID	Compensation for Occupational Injuries and Diseases
SCM	Supply Chain Management
DBSA	Development Bank of South Africa
EPWP	Extended Public Works Programme
GRAP	Generally Recognised Accounting Practice
MMC	Member of Mayoral Committee
HDF	Housing Development Fund
IAS	International Accounting Standards
FMG	Financial Management Grant
IPSAS	International Public Sector Accounting Standards
COGTA	Cooperative Governance and Traditional Affairs
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DWS	Department of Water and Sanitation
IDP	Integrated Development Plan
CIGFARO	Chartered Institute of Government Finance, Audit and Risk Officers (Previously known as IMFO)

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Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The Auditor-General is engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officers sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

Based on the information and explanations given by management, the accounting officers are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 32 of these annual financial statements, are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page 7 to 75, which have been prepared on the going concern basis, were approved by the accounting officers on 30 October 2020 and were signed on its behalf by:

Monyaki, SJ (Acting)
Accounting Officer

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is a local authority providing municipal services and maintaining the best interest of the community in the Moqhaka Municipal Area.

Net deficit of the municipality was R 205 149 883 (2019: deficit R 102 967 761).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The analysis of the going concern is clearly depicted in note 51.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year that could have an impact on the annual financial statements, except for matters as outlined in note 52.

4. Accounting Officers' interest in contracts

The accounting officer Mr SM Mqwathi was charged during the 2018/19 financial year for irregular expenditure relating to one of the appointed service provider.

5. Accounting policies

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122 (3) of the Municipal Financial Management Act, (Act No. 56 of 2003).

6. Accounting Officers

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality
Mqwathi, MS	South African
Monyaki, SJ (Acting)	South African

7. Auditor

Auditor General of South Africa will continue in office for the next financial period.

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Statement of Financial Position as at 30 June 2020

Amounts in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	5 343 218	8 574 172
Inventories	4	87 282 093	91 936 593
Investments	5	9 813 212	6 693 484
Receivables from exchange transactions	6	157 431 622	128 685 254
Receivables from non-exchange transactions	7	44 169 509	29 317 517
VAT receivable	18	42 270 866	46 492 654
		346 310 520	311 699 674
Non-Current Assets			
Heritage assets	8	7 761 921	7 761 921
Intangible assets	9	2 765 638	3 083 047
Investments	5	208 870	218 288
Investment property	10	93 227 881	92 529 032
Property, plant and equipment	11	2 049 880 753	2 120 064 194
Receivables from exchange transactions	6	3 312 982	4 599 798
Receivables from non-exchange transactions	7	359 575	574 207
		2 157 517 620	2 228 830 487
Total Assets		2 503 828 140	2 540 530 161
Liabilities			
Current Liabilities			
Borrowings	14	1 721 457	1 597 911
Consumer deposits	12	13 022 242	13 582 234
Employee benefit obligations	19	7 214 125	6 602 082
Finance lease obligation	13	1 053 684	1 058 942
Payables from exchange transactions	15	529 019 925	423 299 737
Provisions	16	74 000	82 000
Unspent conditional grants and receipts	17	8 822 689	2 990 237
		560 928 122	449 213 143
Non-Current Liabilities			
Employee benefit obligation	19	38 585 197	42 508 000
Finance lease obligation	13	175 104	1 228 788
Borrowings	14	24 615 187	23 248 423
Provisions	16	124 231 920	63 889 329
		187 607 408	130 874 540
Total Liabilities		748 535 530	580 087 683
Net Assets		1 755 292 610	1 960 442 478
Accumulated surplus		1 755 292 610	1 960 442 478

* See Note 49

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Amounts in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Fair value adjustments	43	1 091 779	132 752
Fees	27	1 128 743	1 270 859
Gains on employee benefit obligation	44	9 744 150	-
Interest received	28	31 633 534	26 763 213
Other income	29	21 727 346	17 979 427
Rental of facilities and equipment	26	3 059 999	6 636 146
Service charges	24	456 803 428	416 537 853
Total revenue from exchange transactions		525 188 979	469 320 250
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	71 332 893	64 054 863
Transfer revenue			
Fines	30	3 152 421	3 133 871
Government grants and subsidies	22	258 564 805	260 176 099
Public contributions and donations	25	-	7 738 310
Total revenue from non-exchange transactions		333 050 119	335 103 143
Total revenue	21	858 239 098	804 423 393
Expenditure			
Bulk purchases	40	280 065 732	236 341 911
Contracted services	37	55 525 718	41 646 606
Depreciation and amortisation	34	114 617 489	113 428 526
Debt Impairment	33	91 487 353	108 856 709
Employee related costs	31	291 942 624	265 544 193
Finance costs	36	24 807 131	14 878 458
General Expenses	42	120 413 926	61 981 042
Grants and subsidies paid	39	2 513 160	46 149
Impairment loss on assets	35	2 270 788	429 940
Loss on disposal of assets	41	4 959 769	7 857 690
Remuneration of councillors	32	20 629 831	19 672 790
Repairs and maintenance	38	54 155 460	31 976 140
Loss on employee benefit obligation	44	-	4 731 000
Total expenditure		1 063 388 981	907 391 154
Deficit for the year		(205 149 883)	(102 967 761)

* See Note 49

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Statement of Changes in Net Assets

Amounts in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	2 063 410 239	2 063 410 239
Deficit for the year	(102 967 761)	(102 967 761)
Total changes	(102 967 761)	(102 967 761)
Balance at 01 July 2018 as previously reported	1 959 346 889	1 959 346 889
Prior year adjustments (Refer Note 49)	1 095 604	1 095 604
Restated* Balance at 01 July 2019 as restated*	1 960 442 493	1 960 442 493
Deficit for the year	(205 149 883)	(205 149 883)
Total changes	(205 149 883)	(205 149 883)
Balance at 30 June 2020	1 755 292 610	1 755 292 610

* See Note 49

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Cash Flow Statement

Amounts in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Customers		438 922 419	389 711 495
Grants		264 397 257	261 574 827
Interest		3 066 313	1 664 814
Other receipts		23 541 304	30 458 367
		<u>729 927 293</u>	<u>683 409 503</u>
Payments			
Employee costs		(204 610 295)	(183 436 008)
Suppliers		(460 831 522)	(403 337 255)
Finance costs		(15 624 347)	(7 471 528)
		<u>(681 066 164)</u>	<u>(594 244 791)</u>
Net cash flows from operating activities	46	<u>48 861 129</u>	<u>89 164 712</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(47 365 761)	(82 461 041)
Additions of investments	10&5	(2 767 380)	(6 568 714)
Net cash flows from investing activities		<u>(50 133 141)</u>	<u>(89 029 755)</u>
Cash flows from financing activities			
Repayment of borrowings		(900 000)	-
Finance lease repayments		(1 058 942)	2 278 034
Net cash flows from financing activities		<u>(1 958 942)</u>	<u>2 278 034</u>
Net increase in cash and cash equivalents		<u>(3 230 954)</u>	<u>2 412 991</u>
Cash and cash equivalents at the beginning of the year		8 574 172	6 161 181
Cash and cash equivalents at the end of the year	3	<u>5 343 218</u>	<u>8 574 172</u>

* See Note 49

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Amounts in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	519 510 000	9 852 000	529 362 000	456 803 428	(72 558 572)	24
Rental of facilities and equipment	8 027 000	(24 000)	8 003 000	3 059 999	(4 943 001)	26
Other income	9 782 000	4 611 000	14 393 000	33 692 018	19 299 018	29
Interest received	26 677 000	3 691 000	30 368 000	31 633 534	1 265 534	28
Total revenue from exchange transactions	563 996 000	18 130 000	582 126 000	525 188 979	(56 937 021)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	80 501 000	(3 986 000)	76 515 000	71 332 893	(5 182 107)	23
Transfer revenue						
Government grants & subsidies	209 803 000	(362 000)	209 441 000	210 019 470	578 470	22
Fines	8 105 000	(82 000)	8 023 000	3 152 421	(4 870 579)	30
Total revenue from non-exchange transactions	298 409 000	(4 430 000)	293 979 000	284 504 784	(9 474 216)	
Total revenue	862 405 000	13 700 000	876 105 000	809 693 763	(66 411 237)	
Expenditure						
Employee costs	(279 699 000)	(13 203 000)	(292 902 000)	(291 942 624)	959 376	31
Remuneration of councillors	(19 319 000)	724 000	(18 595 000)	(20 629 831)	(2 034 831)	32
Depreciation and amortisation	(2 737 000)	(1 400 000)	(4 137 000)	(114 617 489)	(110 480 489)	34
Finance costs	(6 914 000)	(483 000)	(7 397 000)	(24 807 131)	(17 410 131)	36
Debt Impairment	(90 028 000)	398 000	(89 630 000)	(91 487 353)	(1 857 353)	33
Bulk purchases	(263 126 000)	(11 000)	(263 137 000)	(280 065 732)	(16 928 732)	40
Contracted Services	(100 844 000)	(46 000)	(100 890 000)	(55 525 718)	45 364 282	37
General Expenses	(64 329 000)	(1 954 000)	(66 283 000)	(184 313 103)	(118 030 103)	42
Other Materials	(10 936 000)	587 000	(10 349 000)	-	10 349 000	
Total expenditure	(837 932 000)	(15 388 000)	(853 320 000)	(1 063 388 981)	(210 068 981)	
Operating deficit	24 473 000	(1 688 000)	22 785 000	(253 695 218)	(276 480 218)	
Transfers recognised - capital	-	-	-	48 545 335	48 545 335	22
Deficit before taxation	24 473 000	(1 688 000)	22 785 000	(205 149 883)	(227 934 883)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	24 473 000	(1 688 000)	22 785 000	(205 149 883)	(227 934 883)	
Reconciliation						

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Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

These annual financial statements comply with all the requirements of the Standards of Generally Recognised Accounting Practice.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality, and have been rounded off to the nearest Rand.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Services and rates debtors

The municipality assesses its Services and rates debtors for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows expected from the customer.

The impairment for Services and rates debtors is calculated on a portfolio basis, based on historical loss ratios, adjusted for local economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to Services and rates debtors balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance in the year in which it arose.

Fair value estimation

The fair value of investment properties is determined with reference to market conditions as at year end. This valuation was performed by a registered professional valuer.

Provisions

Provisions were raised and management determined an estimate based on the best information available at the time of making the judgement and estimate of the financial effect.

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation / amortisation charges for the property, plant and equipment as well as intangible assets. The municipality re-assess the useful lives and the residual values of the individual asset. This estimate is based on industry norms and future plans of the municipality communicated through its strategic planning processes.

If material, Management will change the depreciation consideration of the condition and actual use charge where useful lives are more / less than previously estimated.

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Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions.

Effective interest rate and deferred payment terms

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Accounting Policies

1.3 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Derecognition

The gain or loss arising from derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

- When the municipality leases out the property and receives rental income.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- Determining any cash generations independent from other assets.
- Purpose of holding the asset, whether generally held to earn rental income or for capital appreciation.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 38).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 38).

1.4 Property, plant and equipment

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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Accounting Policies

1.4 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	7 - 80 years
Plant and machinery	Straight line	2 - 15 years
Furniture and fixtures	Straight line	2 - 10 years
Motor vehicles	Straight line	2- 20 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 - 7 years
Infrastructure	Straight line	7 - 80 years
Community	Straight line	7 - 80 years
Quarries	Straight line	15 - 20 years
Landfill sites	Straight line	15 - 80 years
Finance leases - 3G cards	Straight line	2 years
Finance leases - Cellphones	Straight line	2 years
Solid waste	Straight line	15 - 80 years
Waste water network	Straight line	7 - 80 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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1.4 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 38).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 38).

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the property, plant and equipment.

Transfer

Transfers from property, plant, and equipment assets are only made when the particular asset no longer meets the definition of a property, plant, and equipment.

Transfers to property, plant, and equipment are only made when the asset meets the definition of a property, plant, and equipment.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore certain items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Moqhaka Local Municipality

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Accounting Policies

1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 38).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 38).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

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Accounting Policies

1.6 Heritage assets (continued)

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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Accounting Policies

1.7 Intangible assets (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	20 years
Computer software	Straight line	3 - 5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised.

1.8 Financial instruments

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position into the following categories:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial assets	Financial liability measured at fair value
Investments	Financial asset measured at amortised cost
Cash and Cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

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Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value if subsequently measured at fair value.

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Moghaka Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Tax

Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% (from 01 April 2018) and 14% (2017) in terms of section 7(1) (a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

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Accounting Policies

1.10 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs: Recognise past service costs as an expense in the reporting period in which the plan is amended.

Actuarial gains or losses: Actuarial gains and losses are recognised in the surplus or deficit in the reporting period in which they occur.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. Independent qualified actuaries carry out valuations of these obligations. The benefits are charge to income as incurred throughout the year.

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

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Accounting Policies

1.13 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Future events that may affect the amount required to settle an obligation is reflected in the amount of the provision where there is sufficient objective evidence that they will occur.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 47.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense rather than as an adjustment of the amount of revenue originally recognised.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Moqhaka Local Municipality

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Revenue from the rental of facilities and equipment is recognised on a straight-lined basis over the term of the lease agreement.

Penalty interest is levied on unpaid amounts each month. This revenue is recognised when leviable in terms of law.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Assessment Rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Transfers

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are measured at the amount of the fine issued, with an adjustment of the estimate amount of fines that may be disputed in a court of law as part of the allowed dispute mechanisms and time frames.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.16 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative amounts

Where necessary, comparative amounts have been reclassified to conform to changes in presentation in the current year.

Then the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed in note 49.

Where accounting errors have been identified in the current year, the correction is made retrospectively as far as practical, and the prior period comparatives are restated accordingly.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.19 Fruitless and wasteful expenditure (continued)

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

According to section 1 of the MFMA: "irregular expenditure", in relation to a municipality or municipal entity, means -

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act and which has not been condoned in terms of section 170; or
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act and which has not been condoned in terms of that Act; or
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of unauthorised expenditure.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

1.23 Related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 Contractual Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Contractual commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract is yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts which are non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality. Expenditure on research is recognised as an expense when it is incurred.

1.25 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.26 Budget information (continued)

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The following standards and amendments to standards have been issued but are not yet effective.

GRAP 20 - Related Party Transactions

This standard establishes principles for related party disclosure.

The impact on the financial results and disclosure is considered to be minimal.

Effective date for this standard is 1 April 2019.

GRAP 32 - Service Concession Arrangements: Grantors

The objective of this Standard is to establish accounting principles for the service concession arrangements.

The financial results and disclosure are not likely to be affected when the Standard is adopted.

Effective date for this standard is 1 April 2019.

GRAP 108 - Statutory Receivables

This standard prescribes the accounting treatment and disclosure for statutory receivables.

The financial results and disclosure are likely to affect the measurement and presentation and disclosure of rates debtors and fines debtors. The effect cannot be quantified at this time but may not be material.

Effective date for this standard is 1 April 2019.

GRAP 109 - Accounting by Principal and Agents

This standard outlines principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The impact on the financial results and disclosure cannot be quantified at this time but may be material.

Effective date for this standard is 1 April 2019.

GRAP 110 - Living and Non-living Resources

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

This standard outlines principles for the recognition, measurement, presentation and disclosure requirements for living resources and disclosure for non-living resources.

The impact on the financial results and disclosure cannot be quantified at this time but may be material.

No effective date has been determined by the Minister of Finance.

IGRAP 17 - Service Concession Arrangements Where a Grantor Controls a significant Residual Interest in an Asset

The objective of this Standard is to interpret accounting principles for the service concession arrangements where a grantor controls a significant residual interest in an asset.

The financial results and disclosure are not likely to be affected when the Interpretation is adopted.

Effective date for this interpretation is 1 April 2019.

IGRAP 18 - Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

The objective of this Standard is to interpret accounting principles for the recognition and derecognition of land.

The effect cannot be quantified at this time but may not be material.

Effective date for this interpretation is 1 April 2019.

IGRAP 19- Interpretation of the Standard of GRAP on Liability to Pay Levies

The objective of this Standard is to provide guidance on the accounting for levies in the financial statements of the entity that is paying the levy.

The effect cannot be quantified at this time but may not be material.

Effective date for this interpretation is 1 April 2019.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	24 394	21 394
Bank balances	5 318 824	8 552 778
	5 343 218	8 574 172

Cash and cash equivalents pledged as collateral

Guarantee issued to the Department of Mineral Resources	50 000	50 000
This cession is linked to ABSA notice deposit account number: 630 1219190.		

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
ABSA BANK - Cheuque Account- 405-327-7876	5 316 301	9 868 863	4 735 945	5 316 301	8 522 640	6 126 991
Cash on hand	-	-	-	24 394	21 394	19 394
Accrued interest	2 523	35 565	14 796	2 523	30 138	14 796
Total	5 318 824	9 904 428	4 750 741	5 343 218	8 574 172	6 161 181

4. Inventories

Consumable stores	10 977 630	12 006 367
Vacant Sites	76 076 198	79 656 850
Water	228 265	273 376
	87 282 093	91 936 593

Consumable Inventory held by the municipality decreased by R 1,028,737 in the current year (2019 decrease: R 1,068,737).

Vacant sites by the municipality decreased by R 3,580,652 in the current year (2019: R 79,656,850).

Water Inventory held by the municipality decreased R 45,111 in the current year (2019: R 50,881).

During the year inventory that were expensed through the Statement of Financial Performance amounted to R 6,156,818 (2019: R8,220,951).

No Inventories have been pledged as collateral for liabilities of the municipality.

5. Investments

Designated at fair value

ABSA deposits	9 813 212	6 693 484
---------------	-----------	-----------

At fair value

Senwes	118 220	129 451
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The fair value is based on quoted price from active markets for identical assets and is therefore a level 1.

Senwesbel	90 650	88 837
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The fair value is based on quoted price from active markets for identical assets and is therefore a level 1.

	208 870	218 288
Total other financial assets	10 022 082	6 911 772

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
5. Investments (continued)		
Non-current assets		
At fair value	208 870	218 288
Current assets		
At amortised cost	9 813 212	6 693 484
Financial assets at fair value		
Fair value hierarchy of financial assets at fair value		
For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:		
Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.		
Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).		
Level 3 applies inputs which are not based on observable market data.		
6. Receivables from exchange transactions		
Gross balances		
Electricity	63 164 102	51 220 941
Water	433 730 437	365 749 600
Waste Water	113 789 236	100 294 585
Waste	81 979 521	70 675 932
Other Service (Rentals, Fire and advertising services.)	71 593 298	61 413 743
	764 256 594	649 354 801
Less: Allowance for impairment		
Electricity	(28 598 508)	(20 128 878)
Water	(369 334 170)	(319 041 187)
Waste Water	(85 611 325)	(73 866 680)
Waste	(61 721 785)	(53 037 428)
Other services*	(61 559 184)	(54 595 374)
	(606 824 972)	(520 669 547)
Net balance		
Electricity	34 565 594	31 092 063
Water	64 396 267	46 708 413
Waste Water	28 177 911	26 427 905
Waste	20 257 736	17 638 504
Other services	10 034 114	6 818 369
	157 431 622	128 685 254
Electricity		
Current (0 -30 days)	9 663 365	8 741 801
31 - 60 days	2 643 335	1 965 390
61 - 90 days	865 373	1 042 725
> 90 days	21 393 521	19 342 147
	34 565 594	31 092 063

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
6. Receivables from exchange transactions (continued)		
Water		
Current (0 -30 days)	3 020 816	1 390 730
31 - 60 days	1 377 056	1 027 388
61 - 90 days	1 012 983	867 169
> 90 days	58 985 412	43 423 126
	64 396 267	46 708 413
Sewerage		
Current (0 -30 days)	987 451	893 025
31 - 60 days	778 477	612 921
61 - 90 days	598 252	564 433
> 90 days	25 813 731	24 357 526
	28 177 911	26 427 905
Refuse		
Current (0 -30 days)	686 433	579 762
31 - 60 days	513 016	394 461
61 - 90 days	400 242	362 231
> 90 days	18 658 045	16 302 050
	20 257 736	17 638 504
Other services		
Current (0 -30 days)	136 974	697 355
31 - 60 days	83 040	825 158
61 - 90 days	88 664	254 948
>90 days	9 725 436	5 040 908
	10 034 114	6 818 369

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
6. Receivables from exchange transactions (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	23 542 438	15 989 339
31 - 60 days	12 885 937	14 836 063
61 - 90 days	10 832 643	11 177 488
> 90 days	656 718 140	554 813 297
	<u>703 979 158</u>	<u>596 816 187</u>
Less: Allowance for impairment	(592 186 402)	(511 833 791)
	111 792 756	84 982 396
Industrial/ commercial		
Current (0 -30 days)	11 911 476	10 249 605
31 - 60 days	2 559 098	1 045 667
61 - 90 days	1 251 754	657 342
> 90 days	21 918 314	15 844 799
	<u>37 640 642</u>	<u>27 797 413</u>
Less: Allowance for impairment	(14 638 570)	(8 835 756)
	23 002 072	18 961 657
National and provincial government		
Current (0 -30 days)	5 073 492	3 601 072
31 - 60 days	3 300 949	2 501 070
61 - 90 days	787 715	1 568 927
> 90 days	13 474 638	17 070 402
Less: Allowance for impairment	-	-
	22 636 794	24 741 471
Total		
Current (0 -30 days)	40 527 409	29 840 016
31 - 60 days	18 745 985	18 382 800
61 - 90 days	12 872 115	13 403 757
> 90 days	692 111 085	587 728 228
	<u>764 256 594</u>	<u>649 354 801</u>
Less: Allowance for impairment	(606 824 972)	(520 669 547)
	157 431 622	128 685 254
Less: Allowance for impairment		
Current (0 -30 days)	(606 824 972)	(520 669 547)
Total debtor past due but not impaired		
> 365 days	<u>3 312 982</u>	<u>4 599 798</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(520 669 547)	(418 346 919)
Contributions to allowance	(86 155 425)	(103 062 955)
Debt impairment written off against allowance	-	740 327
	(606 824 972)	(520 669 547)

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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6. Receivables from exchange transactions (continued)

Receivables from exchange transactions (Arrangements)

Arrangements included in the above receivables from exchange transactions amounting to R3.3m (2019: R4.6m), is a number of consumers with whom arrangements have been made to pay the debt over a period longer than one year.

No receivables from exchange transaction have been pledged as collateral for liabilities of the municipality.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
7. Receivables from non-exchange transactions		
Fines	1 019 356	1 313 614
Sundry receivables	17 316 679	10 392 271
Consumer debtors - Rates	26 193 049	18 185 839
	44 529 084	29 891 724
Non-current assets	(359 575)	(574 207)
Current assets	44 169 509	29 317 517
	44 529 084	29 891 724
Assessment rates		
Gross balance	61 733 963	51 210 908
Less: Allowance for impairment	(35 540 914)	(33 025 069)
	26 193 049	18 185 839
Total		
Current (0-30 days)	5 240 966	3 383 176
31 - 60 days	1 961 408	1 511 956
61 - 90 days	1 569 195	1 197 914
> 90 days	52 962 394	45 117 862
Less: Impairment	(35 540 914)	(33 025 069)
	26 193 049	18 185 839
Residential		
Current (0 - 30 days)	1 749 577	1 983 177
31 - 60 days	1 036 324	862 166
61 - 90 days	872 829	724 155
> 90 days	33 658 066	32 830 212
Less: Impairment	(27 626 222)	(25 614 834)
	9 690 574	10 784 876
Industrial / commercial		
Current (0 - 30 days)	3 955 627	1 405 496
31 - 60 days	1 510 399	650 314
61 - 90 days	999 357	472 256
> 90 days	16 395 075	12 164 548
Less: Impairment	(7 914 692)	(7 410 234)
	14 945 766	7 282 380
National and provincial government		
Current (0 - 30 days)	1 510 391	4 532
31 - 60 days	8 411	4 532
61 - 90 days	8 411	4 532
> 90 days	29 496	104 987
	-	-
	1 556 709	118 583
Reconciliation of allowance for impairment - Assessment Rates		
Balance at the beginning of the year	(33 025 069)	(18 652 559)
Contributions to allowance	(2 515 845)	(14 372 510)
	(35 540 914)	(33 025 069)

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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7. Receivables from non-exchange transactions (continued)

Fines

Gross balance	2 385 555	2 455 071
Less: Allowance for impairment	(1 725 773)	(1 715 664)
	659 782	739 407

Reconciliation of allowance for impairment - Fines

Balance at the beginning of the year	(1 715 664)	(3 296 028)
Contribution to allowance	(1 725 773)	(2 049 894)
Reversal of impairment	1 715 664	3 630 258
	(1 725 773)	(1 715 664)

The calculation in respect of the impairment fines receivable is based on an assessment of the past payment history of fines per category. The total average collectability of fines were 33% (2019: 20%).

The calculation for initial recognition and measurement of fines reduced and or cancelled is based on an assessment of past reduced and or cancelled history of fines per category. The total average estimated reductions used were 15% (2019: 48%).

Receivables from non-exchange transactions (Arrangements)

Other receivables from non-exchange transactions	359 575	574 207
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Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand

8. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	7 761 921	-	7 761 921	7 761 921	-	7 761 921

Reconciliation of heritage assets 2020

	Opening balance	Total
Heritage assets	7 761 921	7 761 921

Reconciliation of heritage assets 2019

	Opening balance	Transfers received	Total
Heritage assets	1 527 922	6 233 999	7 761 921

Heritage assets

The municipality's Heritage Assets comprise of significant historical assets within the Moqhaka Municipality.

These are made up of the:

1. Anglo-Boer War Memorial Burial Site,
2. Sports Monument,
3. Mayoral Chains.
4. ZR Mahabane House

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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8. Heritage assets (continued)

Reconciliation of Heritage Assets

	Carrying amount 2020	Carrying amount 2019
Municipal Jewellery	1 227 800	1 277 800
Areas of land of historic or specific significance	250 122	250 122
Culturally significant buildings	6 233 999	6 233 999
	7 711 921	7 761 921

9. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	5 404 641	(2 639 003)	2 765 638	5 404 641	(2 321 594)	3 083 047

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	3 083 047	(317 409)	2 765 638

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	3 426 408	(343 361)	3 083 047

Other information

There were no intangible assets that were assessed as having an indefinite useful live.

There are no intangible assets whose titles are restricted or pledged as security for municipality's liabilities.

There are no contractual commitments for the acquisition of intangible assets.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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10. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	93 227 881	-	93 227 881	92 529 032	-	92 529 032

Reconciliation of investment property - 2020

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	92 529 032	(50 000)	748 849	93 227 881

Reconciliation of investment property - 2019

	Opening balance	Disposals	Transfers	Fair value adjustments	Total
Investment property	174 176 702	(2 111 000)	(79 656 850)	120 180	92 529 032

Pledged as security

There are currently no restrictions on Investment Property as they have not being pledged as securities for liabilities.

There are no restrictions on the reliability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations for the acquisition of Investment Property.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The fair value of the investment property was provided by Elira Property Group registered as a Professional Associated Valuer under subsection (2) of section 22 of (Act 47) of 2000 Property Valuers Profession Bill..

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	3 059 999	6 636 146
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Moqhaka Local Municipality

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Amounts in Rand

11. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	55 992 167	-	55 992 167	55 992 167	-	55 992 167
Buildings and Fixtures	76 702 470	(30 079 897)	46 622 573	76 702 470	(28 364 043)	48 338 427
Plant and machinery	9 055 995	(5 836 269)	3 219 726	8 311 968	(5 236 248)	3 075 720
Furniture and office equipment	10 338 706	(7 164 250)	3 174 456	9 757 505	(6 674 668)	3 082 837
Motor vehicles	56 069 067	(37 901 192)	18 167 875	56 014 311	(34 325 995)	21 688 316
IT equipment	11 527 222	(7 721 338)	3 805 884	10 971 565	(6 785 210)	4 186 355
Landfill Sites	15 102 247	(13 482 441)	1 619 806	15 102 247	(13 375 528)	1 726 719
Infrastructure	4 059 829 688	(2 290 296 894)	1 769 532 794	4 025 139 789	(2 188 795 797)	1 836 343 992
Community	194 235 711	(103 071 381)	91 164 330	191 651 021	(97 600 117)	94 050 904
Capital work in progress	55 345 416	-	55 345 416	49 283 222	-	49 283 222
Finance leased assets	3 223 497	(1 987 771)	1 235 726	3 223 497	(927 962)	2 295 535
Total	4 547 422 186	(2 497 541 433)	2 049 880 753	4 502 149 762	(2 382 085 568)	2 120 064 194

Moghaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Amounts in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	55 992 167	-	-	-	-	-	55 992 167
Buildings and Fixtures	48 338 427	-	-	-	(1 715 854)	-	46 622 573
Plant and machinery	3 075 720	744 028	-	-	(567 915)	(32 107)	3 219 726
Furniture and office equipment	3 082 837	583 685	(773)	-	(445 548)	(45 745)	3 174 456
Motor vehicles	21 688 316	586 680	(267 473)	-	(3 056 937)	(782 711)	18 167 875
IT equipment	4 186 355	555 652	-	-	(910 525)	(25 598)	3 805 884
Landfill Sites	1 726 719	-	-	-	(106 913)	-	1 619 806
Infrastructure	1 836 343 992	3 171 474	(697 182)	33 052 566	(100 953 439)	(1 384 617)	1 769 532 794
Community	94 050 904	67 680	(12 916)	2 541 802	(5 483 140)	-	91 164 330
Capital work in progress	49 283 222	40 516 963	-	(34 454 769)	-	-	55 345 416
Finance leased assets	2 295 535	-	-	-	(1 059 809)	-	1 235 726
	2 120 064 194	46 226 162	(978 344)	1 139 599	(114 300 080)	(2 270 778)	2 049 880 753

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	55 992 167	-	-	-	-	-	-	55 992 167
Buildings	50 090 287	-	-	-	-	(1 751 860)	-	48 338 427
Plant and machinery	2 818 805	917 468	(15 868)	-	14 197	(656 666)	(2 216)	3 075 720
Furniture and office equipment	3 435 938	103 794	-	-	98 500	(545 639)	(9 756)	3 082 837
Motor vehicles	18 788 998	2 817 860	(138 760)	2 156 078	1 391 609	(3 237 194)	(90 275)	21 688 316
IT equipment	4 804 930	353 590	(3 681)	-	-	(966 958)	(1 526)	4 186 355
Landfill Sites	1 837 317	-	-	-	-	(110 598)	-	1 726 719
Infrastructure	1 862 715 613	8 025 519	(5 588 381)	70 297 773	-	(99 364 002)	257 470	1 836 343 992
Community	100 164 142	-	-	-	-	(5 529 601)	(583 637)	94 050 904
Capital work in progress	54 667 163	67 069 910	-	(72 453 851)	-	-	-	49 283 222
Finance leased assets	45 282	3 172 900	-	-	-	(922 647)	-	2 295 535
	2 155 360 642	82 461 041	(5 746 690)	-	1 504 306	(113 085 165)	(429 940)	2 120 064 194

Moqhaka Local Municipality

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Amounts in Rand	2020	2019
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11. Property, plant and equipment (continued)

Pledged as security

There are currently no restrictions on property, plant and equipment as they have not being pledged as securities for liabilities.

Capital expenditure

The municipality currently has the following capital commitments with regards to capital expenditure on infrastructure assets

Approved and contracted for	22 033 534	27 371 218
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The following amounts relates to leased assets held by the entity included in property, plant and equipment

Office Equipment	1 228 788	2 287 730
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Reconciliation of Work-in-Progress

Infrastructure	53 481 294	43 864 747
Community	771 548	1 759 089
Landfill sites	-	3 093 423
Buildings and fixtures	565 963	565 963
IT Equipment	526 611	-
	55 345 416	49 283 222

Other information

The Rammulotsi Landfill site project has been delayed due to the environmental assessments study being performed.

Movable register contains assets with a carrying value of R0. These are assets which have been disposed in the 2018/19 and the 2019/20 financial year. They are kept in the register for comparison purposes.

Construction of 66kV Overhead Ring project in WIP has been delayed due to lack of budget.

Fencing of Steynsrus and Matlwangtlwang offices project has been delayed due to contractor inability to complete the project during the stipulated timeframe.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Capital work in progress refers to infrastructure projects and community asset projects which are still in the process of being completed.

12. Consumer deposits

Electricity	3 255 392	3 160 666
Water	6 201 564	6 528 449
Sundries	3 565 286	3 893 119
	13 022 242	13 582 234

Consumer deposits are raised when a service account is opened and is refunded to the consumer after the account is closed.

Moqhaka Local Municipality

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Amounts in Rand	2020	2019
13. Finance lease obligation		
Minimum lease payments due		
- within one year	174 996	1 049 974
- in second to fifth year inclusive	-	1 224 970
	174 996	2 274 944
less: future finance charges	109	12 786
Present value of minimum lease payments	175 105	2 287 730
Present value of minimum lease payments due		
- within one year	1 053 684	1 058 942
- in second to fifth year inclusive	175 105	1 228 788
	1 228 789	2 287 730
Non-current liabilities	175 104	1 228 788
Current liabilities	1 053 684	1 058 942
	1 228 788	2 287 730

It is municipality policy to lease certain motor vehicles and equipment under finance leases. The average lease term does not exceed 5 years. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 11.

The Lease payments does not escalate per annum in line with the Service Level Agreement that the municipality signed, and no arrangements have been entered into for any contingent rent.

14. Borrowings

At amortised cost

Annuity loans - Development Bank of South Africa

The loan is unsecured and payable quarterly at fixed rate of 9%.

The redemption date of the loan is 31 July 2027.

26 336 644	24 846 334
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Non-current liabilities

At amortised cost

24 615 187	23 248 423
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Current liabilities

At amortised cost

1 721 457	1 597 911
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Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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Amounts in Rand	2020	2019
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15. Payables from exchange transactions

Trade payables	517 199 531	408 978 524
Payments received in advance	11 401 338	13 377 395
Deposits received	19 056	15 492
Retention creditors	400 000	928 326
	529 019 925	423 299 737

Trade payables 2020

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Bulk electricity	39 618 606	26 849 408	19 696 813	337 553 859	423 718 686
Auditor General	256 702	472 978	168 833	9 088 864	9 987 377
Third parties	10 105 684	-	-	-	10 105 684
Various trade creditors	1 924 740	-	769 572	70 693 472	73 387 784
	51 905 732	27 322 386	20 635 218	417 336 195	517 199 531

Trade payables 2019

	0 - 30 days	31 - 60 days	61 - 90 days	> 90 days	Total
Bulk electricity	33 663 157	20 969 078	19 636 088	258 838 665	333 106 988
Auditor General	464 764	40 785	82 353	4 766 884	5 354 786
Third parties	9 318 841	-	-	-	9 318 841
Various trade creditors	27 404 945	8 897 636	5 638 034	19 257 294	61 197 909
	70 851 707	29 907 499	25 356 475	282 862 843	408 978 524

Suppliers have not been paid within the prescribed 30 day period due to cashflow constraints.

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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16. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Reversed during the year	Total
Long service awards	19 205 003	-	(881 348)	18 323 655
Funeral death benefit	82 000	-	(8 000)	74 000
Rehabilitation cost of landfill sites	16 332 272	46 769 532	-	63 101 804
Rehabilitation cost of quarries	5 032 144	11 207 860	-	16 240 004
Leave pay	23 319 910	3 246 547	-	26 566 457
	63 971 329	61 223 939	(889 348)	124 305 920

Reconciliation of provisions - 2019

	Opening Balance	Additions	Reversed during the year	Change in discount factor	Total
Long service awards	15 993 003	3 212 000	-	-	19 205 003
Funeral death benefit	92 000	-	(10 000)	-	82 000
Rehabilitation cost of landfill sites	14 048 209	1 807 013	-	477 050	16 332 272
Rehabilitation cost of quarries	4 579 689	305 470	-	146 985	5 032 144
Leave pay	21 395 200	1 924 710	-	-	23 319 910
	56 108 101	7 249 193	(10 000)	624 035	63 971 329

Non-current liabilities	124 231 920	63 889 329
Current liabilities	74 000	82 000
	124 305 920	63 971 329

Leave pay

Annual leave accrues to employees on a monthly basis in accordance with the conditions of employment. Employees are entitled to 16 non-vested leave days and 8 vested leave days per annum, accumulated to a maximum of 48 leave days. The provision is an estimate of the amount due to staff as at the financial year-end, based on the value of leave and the estimated leave days to be forfeited.

It is not the municipality's policy to encash leave in the normal course of business, except upon resignation, termination or retirement.

Rehabilitation of landfill sites and quarries

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites and quarries at Kroonstad, Viljoenskroon and Steynsrus.

Funeral Death Benefit

The funeral death benefit scheme was initiated by the Municipality for its employees who were appointed prior to 1996. The scheme is only open to these municipal employees, and payouts are only made to employees who are deceased while in the service of the Municipality. The scheme participants make a monthly contribution of R2.5 and upon death the beneficiary/family receives the R1,000 payout.

Moqhaka Local Municipality

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Amounts in Rand	2020	2019
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16. Provisions (continued)

Long service award (LSA)

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into a cash amount based on his/her basic salary applicable at the time the award becomes due or, alternatively, credited his/her vacation leave accrual. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2020.

Summary of liability for landfill site costs

Kroonstad Landfill Site	31 416 888	8 386 328
Steynsrus Landfill Site	13 833 510	2 673 830
Viljoenskroon Landfill Site	17 851 407	5 272 115
Kroonstad gravel quarry	6 951 733	3 964 681
Steynsrus gravel quarry	9 288 270	1 067 462
	79 341 808	21 364 416

Amounts recognised in the statement of Financial Performance are as follows:

Current Service cost	(910 000)	(800 000)
Interest cost	(1 331 000)	(1 341 000)
Actuarial gain/ (losses)	152 347	(1 730 000)
Benefit payments	2 970 000	659 000
	881 347	(3 212 000)

Amounts recognised in the statement of Financial Position are as follows:

Defined benefit obligation	(19 205 000)	(15 993 000)
Movement in provision	881 347	(3 212 000)
	(18 323 653)	(19 205 000)

Key assumptions used:

Assumptions used at the reporting date:

Discount rates used	7.62%	7.51%
Salary inflation	3.66%	5.04%
Net discount rate	3.82%	2.35%

The basis on which the discount rate has been determined is as follow:

The discount rate used in the valuation is our best estimate assumption of a CPI inflation rate, consistent with the gross discount rate, is determined with reference to the difference between the yields on government conventional and index linked bonds as at valuation date, adjusted by a liquidity risk premium of 0.35%. A 2% margin is added to these estimates to arrive at the best estimate assumption for a salary inflation.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

LGSETA Grant	1 190 024	877 998
WSIG	6 632 665	-
CoGTA Grant	1 000 000	2 112 239
	8 822 689	2 990 237

Moqhaka Local Municipality

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Amounts in Rand	2020	2019
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17. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	2 990 237	1 591 509
Additions during the year	264 397 257	261 574 827
Income recognition during the year	(258 564 805)	(260 176 099)
	8 822 689	2 990 237
Non-current liabilities	-	-
Current liabilities	8 822 689	2 990 237
	8 822 689	2 990 237

See note 22 for reconciliation of grants from other spheres of government. The amounts are recognised as revenue when the qualifying expenditure is incurred.

18. VAT receivable

Current assets	42 270 866	46 492 654
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The Municipality is registered on the cash basis for VAT purposes. This means that VAT is only paid once cash is received or actual payments are made.

19. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme
- Bonitas Medical Scheme;
- Hosmed Medical Scheme
- Samwumed Medical Scheme; and
- Key Health Medical Scheme.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(42 508 000)	(36 390 000)
Current interest cost	(3 609 000)	(3 258 000)
Actuarial gains/ (loss)	3 424 803	(6 683 000)
Benefits payments	4 107 000	3 823 000
	(38 585 197)	(42 508 000)

The Post Retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

Continuation members (e.g: Widows, orphans, pensioners)	65	70
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Moqhaka Local Municipality

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Amounts in Rand	2020	2019
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19. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Interest cost	(3 609 000)	(3 258 000)
Actuarial (gains) losses	3 424 803	(6 683 000)
Benefit payments	4 107 000	3 823 000
	3 922 803	(6 118 000)

Key assumptions used

Assumptions used at the reporting date:

Discount rate (D)	9.89 %	8.92 %
Health care cost inflation (H)	6.69 %	6.99 %
Net discount rate	3.00 %	1.80 %
Consumer price inflation (C)	5.19 %	5.49 %

The basis used to determine the overall expected rate of return on assets is as follow:

In line with GRAP 25 and current market practice, government bond yields are used as the South African corporate bond market is not considered to be sufficiently developed. Furthermore, it is One Pangaea Financial's view that South Africa does not have a deep and liquid market in corporate bonds, and therefore government bonds are used when setting our best-estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post employment benefit obligations.

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 9.30 years, the expected duration of the liability based on the current membership data, as at 30 June 2020.

The expected benefit payments over the next annual reporting period is reflected in the table below.

Balance at 30 June 2020	(38 585 197)
Projected expenditure excluding actuarial (gains) / losses	0
Current interest cost	(3 612 434)
Expected benefit payments	4 118 149
Expected as at 30 June 2021	(38 079 482)

Moqhaka Local Municipality

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Amounts in Rand	2020	2019
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19. Employee benefit obligations (continued)

Retirement Benefit Information

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans as listed below.

Defined contribution plans

The following are defined contribution plans:

- Free State Municipal Provident Fund
- Maokeng Provident Fund; and
- SAMWU National Provident Fund.

Defined benefit plans

The following are defined benefit plans:

- Government Employees Pension Fund;
- SALA Pension Fund; and
- Free State Municipal Pension Fund.

These are not treated as a defined benefit plan as defined by GRAP 25, but as a defined contribution plan. These funds are multi-employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan. This is in line with the exemption in GRAP 25, paragraph 30, which states that where information required for a defined benefit plan is not available in respect of multi employer and state plans, these should be accounted for as defined contribution plans.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The estimated liabilities of the fund is R 7 418 million (2009: R 6 568 million) which is adequately financed by assets of R 7 110 million (2009: R 6 304 million).

The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund was on 30 June 2005. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund is R1 308 million which is adequately financed by assets of R 1 531 million.

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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20. Financial instruments disclosure

The accounting policies for financial instruments have been applied to the line items below:

2020

Financial assets

	At fair value	At amortised cost	At cost	Total
Receivables from exchange transactions	-	160 744 604	-	160 744 604
Receivables from non-exchange transactions	-	44 529 084	-	44 529 084
Cash and cash equivalents	-	-	5 343 218	5 343 218
Short term deposit	-	-	9 813 212	9 813 212
Investments	208 870	-	-	208 870
	208 870	205 273 688	15 156 430	220 638 988

Financial liabilities

	At amortised cost	At cost	Total
Consumer deposit	13 022 242	-	13 022 242
Finance lease obligation	122 788	-	122 788
Provisions	124 305 920	-	124 305 920
Borrowings	-	26 336 644	26 336 644
Payables form exchange transactions	-	529 019 925	529 019 925
Unspent conditional grants and reciepts	8 822 689	-	8 822 689
	146 273 639	555 356 569	701 630 208

2019

Financial assets

	At fair value	At amortised cost	At cost	Total
Receivables from exchange transactions	-	133 285 052	-	133 285 052
Receivables from non-exchange transactions	-	29 891 754	-	29 891 754
Cash and cash equivalents	-	-	8 574 172	8 574 172
Short term deposit	-	-	6 693 484	6 693 484
Investments	218 288	-	-	218 288
	218 288	163 176 806	15 267 656	178 662 750

Financial liabilities

	At amortised cost	At cost	Total
Consumer deposits	13 582 234	-	13 582 234
Finance lease obligation	2 287 730	-	2 287 730
Provisions	63 971 329	-	63 971 329
Payables from exchange transactions	-	423 299 737	423 299 737
Unspent conditional grants and receipts	2 990 237	-	2 990 237
Borrowings	-	24 846 334	24 846 334
	82 831 530	448 146 071	530 977 601

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21. Revenue

Service charges	456 803 428	416 537 853
Rental of facilities and equipment	3 059 999	6 636 146
Fair value adjustments	1 091 779	132 752
Gains on employee benefit obligation	9 744 150	-
Fees earned	1 128 743	1 270 859
Other income - (rollup)	21 727 346	17 979 427
Interest received - investment	31 633 534	26 763 213
Property rates	71 332 893	64 054 863
Government grants & subsidies	258 564 805	260 176 099
Public contributions and donations	-	7 738 310
Fines, Penalties and Forfeits	3 152 421	3 133 871
	858 239 098	804 423 393

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	456 803 428	416 537 853
Fair value adjustments	1 091 779	132 752
Gains on employee benefit obligation	9 744 150	-
Rental of facilities and equipment	3 059 999	6 636 146
Fees earned	1 128 743	1 270 859
Other income - (rollup)	21 727 346	17 979 427
Interest received - investment	31 633 534	26 763 213
	525 188 979	469 320 250

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	71 332 893	64 054 863
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Transfer revenue

Government grants & subsidies	258 564 805	260 176 099
Public contributions and donations	-	7 738 310
Fines, Penalties and Forfeits	3 152 421	3 133 871
	333 050 119	335 103 143

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Amounts in Rand	2020	2019
22. Government grants and subsidies		
Operating grants		
Equitable share	205 660 000	185 144 000
LG SETA grant	131 470	117 099
Financial Management grant (FMG)	2 215 000	2 215 000
Disaster Relief Grant	1 013 000	-
Expanded Public Works Program grant (EPWP)	1 000 000	1 000 000
	210 019 470	188 476 099
Capital grants		
Water Services Infrastructure grant (WSIG)	8 367 335	28 290 000
Municipal Infrastructure grant (MIG)	40 178 000	43 410 000
	48 545 335	71 700 000
	258 564 805	260 176 099
Equitable share		
Balance unspent at beginning of year	-	-
Current-year receipts	205 660 000	185 144 000
Conditions met - transferred to revenue	(205 660 000)	(185 144 000)
Unspent grant	-	-

This grant is primarily used to subsidise the provision of basic services to indigent households. All registered indigent households receive a monthly subsidy based on the basic service charges for water, electricity, sewerage, refuse, which is funded from the grant. Indigent households also receive 10kl free water and 50kwh free electricity per month.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	-
Current-year receipts	40 178 000	43 410 000
Conditions met - transferred to revenue	(40 178 000)	(43 410 000)
Unspent grant	-	-

The grant is used to supplement the municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services.

LG SETA grant

Balance unspent at beginning of year	877 998	479 270
Current-year receipts	443 496	515 826
Conditions met - transferred to revenue	(131 470)	(117 098)
Unspent grant	1 190 024	877 998

The grant is used for training municipality staff to enhance their skills in their respective positions.

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22. Government grants and subsidies (continued)

Extended Public Works Program Grant

Balance unspent at beginning of year	-	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
Unspent grant	-	-

This grant is used in respect of job creation projects and programmes.

Water Services Infrastructure Grant

Balance unspent at beginning of year	-	-
Current-year receipts	15 000 000	28 290 000
Conditions met - transferred to revenue	(8 367 335)	(28 290 000)
Unspent grant	6 632 665	-

This grant is used for infrastructure development including rehabilitation of key infrastructure assets.

Finance Management Grant

Balance unspent at beginning of year	-	-
Current-year receipts	2 215 000	2 145 000
Conditions met - transferred to revenue	(2 215 000)	(2 145 000)
Unspent grant	-	-

This grant is to be used to train and appoint intern staff members in the finance department of the municipality.

Disaster Relief Grant

Current-year receipts	1 013 000	-
Conditions met - transferred to revenue	(1 013 000)	-
Unspent grant	-	-

The purpose of the grant is to support municipal restructuring initiatives of large municipalities. Funds are made available on the basis of approved restructuring plans that addresses challenges in a sustainable manner.

CoGTA Grant

Balance unspent at beginning of year	2 112 239	1 112 239
Current-year receipts	-	1 000 000
Repayment	(1 112 239)	-
	1 000 000	2 112 239

Moghaka Local Municipality

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Amounts in Rand	2020	2019
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23. Property rates

Rates received

Residential	22 943 642	24 677 822
Commercial	28 475 251	22 029 024
State	19 914 000	17 348 017
	71 332 893	64 054 863

Valuations

Commercial	6 165 592 400	6 185 612 404
Multi-purpose	162 319 000	161 719 000
Municipal	372 227 202	470 318 700
Non-ratable	235 472 805	237 158 805
Residential	4 685 207 568	4 656 238 566
State	1 165 232 008	1 158 122 008
	12 786 050 983	12 869 169 483

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

An average rate of R0.020 (2019:R0.012) is applied to property valuations to determine assessment rates.

Rates are levied on a monthly basis. Interest at prime plus 1% per annum (2019: prime plus 1%) is levied on rates outstanding two months after due date. (Excluding national government property rates which is levied on an annual basis).

Income foregone

The Income foregone included in the different property rates relates to the first R 100 000 of all residential properties that are exempted from paying property rates including, discounts given to farmers, discounts given to pensioners and also incentives given to debtors settling their accounts in terms of the debt collection and credit control policy.

24. Service charges

Sale of electricity	282 051 725	257 815 510
Sale of water	101 389 992	89 767 539
Solid waste	30 610 192	28 624 232
Sewerage and sanitation charges	42 751 519	40 330 572
	456 803 428	416 537 853

Income foregone

The Income foregone included in the difference service charges relates to discounts given to farmers, discounts given to pensioners and also incentives given to debtors settling their accounts in terms of the debt collection and credit control policy.

Moqhaka Local Municipality

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Amounts in Rand	2020	2019
25. Public contributions and donations		
Department of Public Works	-	6 233 999
Gerox	-	98 500
Electricity Project	-	14 197
Free State Department of Police, Roads and Transport	-	1 391 614
	-	7 738 310

2018-2019

The Department of Public Works donated the ZR Mahabane House to the municipality, the value of the house is R6,233, 999.

Gerox donated five Xerox copiers to the value of R98,500.

A donation fibreglass extended ladders R14,19.

The Free State Department of Police, Roads and Transport transferred 4 refuse compactors to total value of R1,391,614 to the municipality.

26. Rental income

Facilities and equipment

Rental of facilities	3 059 999	6 636 146
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27. Fees

Administrative and management fees	1 128 743	1 270 859
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28. Interest and dividends

Interest revenue

Bank	1 599 405	1 664 814
South African Revenue Service (SARS)	1 466 908	-
Receivables from exchange transactions	28 567 221	25 098 399
	31 633 534	26 763 213

All amounts above included in Investment revenue arises from exchange transactions.

29. Other income

Discount received	107 640	8 999
Building plans and inspection fees	786 524	87 813
Burial income	1 343 034	1 331 965
Clearance certificates	242 475	214 943
Connection fees	4 719 278	3 907 153
Erven sales	7 357 261	5 904 224
Escort fees	3 456	6 165
Fire brigade and rescue services	417 984	567 135
Hostel fees	41 255	41 255
Insurance claims	2 479 673	2 995 397
Administration income	478 157	551 992
Dividends received	102	13 991
Special services	3 809	1 434
Sundry income	1 780 278	1 151 811
Unclaimed deposits	1 904 033	852 324
Railway siding	62 387	342 826
	21 727 346	17 979 427

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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30. Fines

Fines consists of:

Fines: Traffic	2 252 010	2 351 830
Fines: Law Enforcement	175 363	436 410
Fines: Meter tampering	725 048	345 631
	3 152 421	3 133 871

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Amounts in Rand	2020	2019
31. Employee related costs		
Basic salary	171 170 425	152 268 451
13th Cheques	13 689 658	12 851 183
Medical aid - company contributions	17 151 198	16 032 404
UIF	1 488 707	1 496 996
Industrial council levy	94 792	91 487
Leave pay provision charge	5 988 328	1 154 986
Group Life Insurance General	1 385 079	56 751
Defined contribution plans	29 853 343	27 722 916
Overtime payments	27 278 667	21 294 032
Long-service awards	1 622 642	658 904
Car allowance	16 095 273	14 698 954
Housing benefits and allowances	1 429 292	1 306 332
Other allowances	3 275 111	13 102 991
Telephone allowance	566 649	490 331
Standby allowance	853 460	2 317 475
	291 942 624	265 544 193

The salaries, allowances and benefits of staff disclosed are within the upper limits of the SALGA bargaining council determinations.

Remuneration of Municipal Manager

Basic Salary	934 457	910 914
Car Allowance	387 671	467 586
Social Contributions	218 865	119 488
Cellphone allowance	36 000	36 000
	1 576 993	1 533 988

Remuneration of Chief Financial Officer

Basic Salary	763 993	744 733
Car Allowance	336 280	327 331
Social Contributions	159 887	153 532
Cellphone Allowance	20 400	20 400
	1 280 560	1 245 996

Executive Director: Technical Services

Basic Salary	763 993	744 733
Car Allowance	263 307	215 223
Housing Allowance	124 207	120 512
Social Contributions	149 616	144 694
Cellphone Allowance	20 000	12 000
	1 321 123	1 237 162

2020

During the financial year the following Directors acted as Municipal Manager and received acting allowance , Mr. M Mthwalo R 92 393, Ms. P Tshabalala R 40 943, Ms. L Ngwenya R 27 922 and Ms. S Monyaki R 13 398.

Mr. T Leie received acting allowance as the Acting LED Director for the period July 2019 - September 2019 and November 2019 - December 2019 to the amount of R55,374.

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31. Employee related costs (continued)

Executive Director: Corporate Services

Basic Salary	763 993	744 733
Car Allowance	350 691	324 654
Social Contributions	166 866	159 919
Cellphone Allowance	22 000	14 000
	1 303 550	1 243 306

Executive Director: Community Services

Basic Salary	763 993	744 733
Car Allowance	304 269	271 775
Social Contributions	50 907	45 748
Housing Allowance	169 891	165 327
Cellphone Allowance	18 000	12 000
	1 307 060	1 239 583

Executive Director: LED and Planning

Basic Salary	411 907	-
Car Allowance	155 748	-
Social Contributions	948	-
Housing Allowance	68 322	-
Cellphone Allowance	8 000	-
	644 925	-

Moqhaka Local Municipality

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32. Remuneration of councillors

Executive Mayor	1 155 770	813 169
Speaker	1 102 947	724 975
Council Whip	719 967	685 827
Councillors	17 651 147	17 448 819
	20 629 831	19 672 790

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle for official duties.
The Executive Mayor has one full-time bodyguard and a driver.

The Speaker has one full-time driver.
The Speaker has the use of a Council owned vehicle for official duties.

Executive Mayor - Cllr M Koloi (Terminated 24 May 2019)

Basic Salary	-	485 549
Car Allowance	-	198 992
Social Contributions	-	91 228
Cellphone Allowance	-	37 400
	-	813 169

Executive Mayor - Cllr PJ Phooko (Appointed 24 May 2019)

Basic Salary	579 804	-
Car Allowance	234 684	-
Social Contributions	104 250	-
Cellphone Allowance	44 400	-
	963 138	-

Speaker - Cllr MS Chakane

Basic Salary	446 971	428 141
Car Allowance	187 219	174 533
Social Contributions	80 888	81 501
Cellphone Allowance	40 800	40 800
	755 878	724 975

Members of Mayoral Committee (MMC)

MMC - PUBLIC SAFETY: Cllr VL Mpondo

Basic Salary	418 241	406 495
Car Allowance	175 353	163 634
Social Contributions	76 793	78 254
Cellphone Allowance	44 400	44 400
	714 787	692 783

MMC - CORPORATE SERVICES: Cllr SB Tladi

Basic Salary	418 241	406 495
Car Allowance	175 353	163 634
Social Contributions	80 016	78 254
Cellphone Allowance	44 400	44 400
	718 010	692 783

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
32. Remuneration of councillors (continued)		
MMC - IDP AND PLANNING: Cllr ZS Magadlela		
Basic Salary	418 241	406 495
Car Allowance	175 353	163 634
Social Contributions	80 016	78 254
Cellphone Allowance	44 400	44 400
	718 010	692 783
MMC - COMMUNITY SERVICES: Cllr MM Green		
Basic Salary	418 241	406 495
Car Allowance	175 353	163 634
Social Contributions	68 153	78 254
Cellphone Allowance	44 400	44 400
	706 147	692 783
MMC - HUMAN SETTLEMENT: Cllr S Mokoena		
Basic Salary	418 241	406 495
Car Allowance	175 353	163 634
Social Contributions	80 016	78 254
Cellphone Allowance	44 400	44 400
	718 010	692 783
MMC - POLICY DEVELOPMENT: Cllr R Manefelt		
Basic Salary	418 241	402 246
Car Allowance	175 353	163 634
Social Contributions	76 793	80 523
Cellphone Allowance	44 400	44 400
	714 787	690 803
MMC - TECHNICAL SERVICES: Cllr KL Kokami		
Basic Salary	418 241	402 246
Car Allowance	175 353	163 634
Social Contributions	76 793	80 523
Cellphone Allowance	44 400	44 400
	714 787	690 803
MMC - COUNCIL WHIP: Cllr PJ Phooko (Terminated 24 May 2019)		
Basic Salary	-	400 446
Car Allowance	-	163 634
Social Contributions	-	77 347
Cellphone Allowance	-	44 400
	-	685 827
MMC - COUNCIL WHIP: Cllr SV Khiba		
Basic Salary	418 241	-
Car Allowance	175 353	-
Social Contribution	76 793	-
Cellphone Allowance	44 400	-
	714 787	-

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
32. Remuneration of councillors (continued)		
MMC - FINANCE, AUDIT AND RISK MANAGEMENT: Cllr ER Moletsane		
Basic Salary	418 241	399 140
Car Allowance	175 353	163 634
Social Contributions	76 793	77 151
Cellphone Allowance	44 400	44 400
	714 787	684 325
MMC - LOCAL ECONOMIC DEVELOPMENT & INVESTMENT: Cllr B Rooskrans		
Basic Salary	418 241	406 495
Car Allowance	175 353	163 634
Social Contributions	80 016	78 254
Cellphone Allowance	44 400	44 400
	718 010	692 783
PART TIME COUNCILLORS		
Cllrs' AH Viljoen, JM Hattingh, ME Mohoaladi, MI Thajane, CM Dalton, MJ Lithupa, DN Nzunga, J Geldenhuis, MPE Mpele, L Van Schalkwyk, Baba JM, Boeije HME, Bolofo LD, Khasudi D, Khunyeli JM, Leboko OA, Makae HG, Mahlatsi MS, Mahlatsi JR, Malejoane AM, Marako TJ, Mareka J, Mntuze ME, Ramajoe EL, Makhanda ML, Mokotedi MV, Nhlapo M, Pietersen ML, Muller ND, Pittaway SH, Ramathibe BS, Serapela DJ, Yho-Yho M.		
Basic Salary	5 407 843	5 056 108
Car Allowance	2 282 589	2 191 661
Social Contributions	1 322 375	1 359 967
Cellphone Allowance	1 398 600	1 408 309
	10 411 407	10 016 045
MPAC CHAIRPERSON: Cllr ML Pietersen		
Basic Salary	403 826	390 991
Car Allowance	172 170	162 334
Social Contributions	74 725	79 459
Cellphone Allowance	44 400	44 400
	695 121	677 184
33. Debt impairment		
Receivables from exchange transactions	89 761 579	106 806 815
Receivables from non-exchange transactions	1 725 774	2 049 894
	91 487 353	108 856 709
34. Depreciation and amortisation		
Property, plant and equipment	114 300 080	113 085 165
Intangible assets	317 409	343 361
	114 617 489	113 428 526

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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35. Impairment loss on assets

Impairments

Property, plant and equipment	2 270 788	429 940
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2018/2019

During the year, two municipal buildings, Rammulotsi community hall and Kroonpark Manager House were burned.

The fire at Rammulotsi was due to a service delivery protest and had to be impaired due to conditional damage. The fire to the Kroonstad Manager House was accidental due to wild fire.

Other impaired assets were due to condition assessment.

36. Finance costs

Landfill sites and quarries	874 021	624 034
Late payment of creditors	15 624 257	7 471 528
Annuity loans and finance leases	2 390 310	2 183 897
Employee benefits	5 918 543	4 598 999
	24 807 131	14 878 458

37. Contracted services

Specialist Services	42 369 084	30 265 796
Other Contractors	13 156 634	11 380 810

Specialist Services

Security Services	39 111 067	26 754 860
Legal Services	1 614 939	1 746 921
Maintenance Services	1 643 078	1 764 015
	42 369 084	30 265 796

Other Contractors

Professional Services	778 108	1 218 701
Electricity Vending Services	5 926 863	5 487 179
Water Chemicals	3 877 704	3 659 930
Other Contracted Services	930 710	809 750
Special Projects and Youth Development	1 451 249	-
Valuation Services	192 000	205 250
	13 156 634	11 380 810

38. Repairs and maintenance

Repairs and maintenance consists of:

Buildings	2 563 395	2 615 588
Electrical Network	6 241 136	2 939 125
Water and Sewer Network	31 926 675	10 611 942
Fleet	9 172 356	11 369 320
Roads	2 016 206	3 269 674
Other repairs and maintenance	2 235 692	1 170 491
	54 155 460	31 976 140

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
39. Grants and subsidies paid		
Other subsidies		
FMG Grant Expenditure	2 513 160	46 149
40. Bulk purchases		
Electricity - Eskom	279 566 467	235 816 326
Water	499 265	525 585
	280 065 732	236 341 911
41. Loss on disposal of assets		
Property, plant and equipment	976 769	5 746 690
Investment property	50 000	2 111 000
Vacant Sites	3 933 000	-
	4 959 769	7 857 690
42. General expenses		
Advertising	443 511	537 291
Auditors remuneration	7 295 905	6 124 048
Bank charges	2 561 508	2 521 672
Cleaning	107 017	159 884
Consumables stores	10 451 995	8 475 391
Entertainment	35 689	103 710
Lease rentals on operating lease	5 201 459	3 359 927
Insurance	2 922 597	1 960 605
Committee expenses	116 557	142 740
Travel and subsistence	1 261 832	2 453 029
Funeral expenses	42 176	13 651
Medical expenses	235 766	256 490
Fuel and oil	6 044 003	6 521 948
Postage and courier	1 624 768	1 794 758
Printing and stationery	23 347	12 248
Protective clothing	648 349	1 694 866
Provision for rehabilitation adjustment	57 103 371	2 112 484
Subscriptions and membership fees	2 649 274	8 590 583
Telephone and fax	1 276 081	1 670 021
Water valuation adjustments	45 110	50 881
Commission paid	12 230 719	6 030 710
Workmen's compensation	1 126 894	1 035 932
Licences - other	2 580 080	2 286 620
Licences - vehicles	435 484	547 917
Skills development levy	2 476 949	2 304 173
Other expenses	1 473 485	1 219 463
	120 413 926	61 981 042
43. Fair value adjustments		
Investment property (Fair value model)	748 849	120 180
Investment in shares	342 930	12 572
	1 091 779	132 752

Moqhaka Local Municipality

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44. Actuarial Gains/(Losses) on Employees benefits		
Actuarial Gains	9 744 150	(4 731 000)
The above balance is made up as follows:		
Long Service Awards - Actuarial gains/(losses)	2 212 347	(1 871 000)
Post retirement medical benefit - Actuarial gains/(losses)	7 531 803	(2 860 000)
	9 744 150	(4 731 000)
45. Auditors' remuneration		
Fees	7 295 905	6 124 048
46. Cash generated from operations		
Surplus / (deficit)	(205 149 883)	(102 967 761)
Adjustments for:		
Depreciation and amortisation	114 617 489	113 428 526
Loss on disposal of assets	4 959 769	7 857 690
Public contributions and donations	-	(7 738 305)
Fair value adjustments	(1 091 779)	(132 752)
Discounts received	(107 640)	(8 999)
Finance costs	9 182 874	7 406 930
Impairment loss on assets	2 270 778	429 940
Debt impairment	91 487 353	108 856 709
Gains on employee benefit obligation	(9 744 150)	-
Provision raised	61 672 917	5 368 194
Prior period adjustments	-	17 563 380
Interest on Note 6. Receivables from exchange transactions	(28 567 221)	(25 098 399)
Changes in working capital:		
Inventories	721 500	1 109 470
Receivables from exchange transactions	(88 653 910)	(92 582 531)
Other receivables from non-exchange transactions	(16 363 134)	(6 432 998)
Payables from exchange transactions	105 829 418	72 578 693
Unspent conditional grants and receipts	5 832 452	1 398 728
Consumer debtors	(559 992)	1 701 310
Employee benefit obligation	(1 697 500)	(1 895 264)
VAT	4 221 788	(11 677 849)
	48 861 129	89 164 712
47. Contingencies		
Contingent liabilities - pending claims		
The municipality is a defendant against various claims against the council. All the claims are being contested based on legal advice.		
The certainty and the timing of the outflow of these liabilities are uncertain. The amounts disclosed below are possible outflow amounts.		
Contingent liabilities		
Claims by individuals due to damage of property in various incidents	3 425 147	8 700 904
Claims from suppliers - contractual disputes	7 287 021	7 787 021
	10 712 168	16 487 925

Moqhaka Local Municipality

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Amounts in Rand	2020	2019
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48. Related parties

The municipality did not enter into any related party transactions during the year under review, which were not at arm's length.

Key management information

Class	Number
Executive Mayor	1
Councillors	44
Municipal Manager	1
Section 57 managers	5

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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49. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2019

	Note	As previously reported	Correction of error	Re-classification	Restated
Vat receivable	18	46 667 393	(174 739)	-	46 492 654
Property, plant and equipment	11	2 120 062 948	1 246	-	2 120 064 194
Consumer deposits	12	(13 512 234)	(70 000)	-	(13 582 234)
Payables from exchange transactions	15	(422 241 750)	(1 057 976)	-	(423 299 737)
Accumulated surplus		1 979 170 527	1 095 593	-	1 971 865 047
Employee benefit obligation	19	(36 504 000)	(6 004 000)	-	(45 208 000)
Inventories	4	12 279 743	-	79 656 850	91 936 593
Investment property	10	172 185 882	-	(79 656 850)	92 529 032
Receivables from exchange transactions	6	133 946 705	(661 653)	-	133 285 052
Receivables from non-exchange transactions	7	40 652 640	(10 760 916)	-	29 891 724
		4 032 707 854	(17 632 445)	-	4 003 974 325

Statement of financial performance

2019

	Note	As previously reported	Correction of error	Restated
Other income	29	(17 978 348)	(1 079)	(17 979 427)
Depreciation and amortisation	34	113 429 769	(1 243)	113 428 526
Contracted services	37	47 492 912	109 746	47 602 658
Repairs and maintenance	38	32 455 096	(478 956)	31 976 140
General expenditure	42	55 397 267	627 723	56 024 990
Gains on employee benefit obligation	44	(1 273 000)	1 273 000	-
Losses on employee benefit obligation	44	-	4 731 000	4 731 000
Bulk purchases	40	236 392 226	(50 315)	236 341 911
Debt impairment	33	97 434 140	11 422 569	108 856 709
		563 350 062	17 632 445	580 982 507

Errors

A number of prior period errors were corrected during the year ending 30 June 2020. The details of the retrospective prior period errors adjusted are reflected below.

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

Amounts in Rand	2020	2019
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49. Prior-year adjustments (continued)

The following prior period errors adjustments occurred:

Payables from exchange transactions, Other Income - Cheques for the old year was cancelled. A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 1 079 and the increase of other income to the amount of (R 1 079).

Repairs and maintenance, Payables from exchange transactions - Cheques for the old year was cancelled. A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 1 000 and the decrease of Repairs and maintenance to the amount of (R 1 000).

Repairs and maintenance, Payables from exchange transactions, VAT - Cheques for the old year was cancelled. A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 430 182, the decrease of Repairs and maintenance to the amount of (R 374 107) and the increase of VAT to the amount of (R 56 111), .

Accumulated surplus, Consumer Deposits - Consumer Deposits were understated in the prior year. A correction was done accordingly resulting in the increase in Consumer Deposits to the amount of (R 70 000) and , the decrease of accumulated surplus to the amount of R 70 000.

Accumulated surplus, Payables from exchange transactions - Payables from exchange transactions were understated in the prior year. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R 937 999) and the decrease of accumulated surplus to the amount of R 937 999.

Contracted services, General expenditure, Repairs and maintenance, Payables from exchange transactions - Creditors in the old year was understated. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R 842 384) increase of Contracted services to the amount of R 197 146, and the increase of Repairs and maintenance to the amount of R 17 515 and a increase of General Expenditure to the amount of R 627 723.

Accumulated surplus, VAT - Penalties was raised in VAT for the prior years. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R118 628) and the decrease of accumulated surplus to the amount of R 118 628.

Accumulated surplus, Payables from exchange transactions - Payables from exchange transactions were overstated . A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 31 034 and the increase of accumulated surplus to the amount of (R 31 034).

Property, plant and equipment, Depreciation and amortisation - Depreciation on an asset was overstated. A correction was done accordingly resulting in the increase in Property, plant and equipment to the amount of R 1 243 and the decrease of depreciation and amortisation to the amount of (R 1 243).

Employee benefit obligation, Gains (Loss) on employee benefit obligation - The Employee benefit obligation was understated. A correction was done accordingly resulting in the increase in Employee benefit obligation to the amount of (R 6 004 000), The decrease in Gains on employee benefit obligation to the amount of R 1 273 000 and the increase of Loss on employee benefit obligation to the amount of R 4 731 000.

Payables from exchange transactions, Contracted services, Repairs and maintenance, Bulk purchases - Payables from exchange transactions were overstated . A correction was done accordingly resulting in the decrease of Payables from exchange transactions to the amount of R 259 115, the decrease of Contracted services to the amount of (R 87 400), the decrease of Repairs and maintenance (R 121 400) and the decrease of Bulk purchases to the amount of (R 50 315).

Receivables from exchange transactions, Receivables from non-exchange transactions, Debt impairment - The Debt impairment in the prior year was understated . A correction was done accordingly resulting in the increase of Debt impairment to the amount of R 11 42 2569, the decrease of Receivables from exchange transactions to the amount of (R 661 653) and the decrease of Receivables from non-exchange transactions to the amount of (R 10 760 916).

Moghaka Local Municipality

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49. Prior-year adjustments (continued)

Reclassifications

The following reclassifications adjustment occurred:

Inventories, Investment property - Vacant sites were incorrectly classified as Investment property. A correction was done that resulted in the decrease of Investment property to the amount of (R 79 65 6850) and the increase in Inventories to the amount of R 79 656 850.

50. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 14, cash and cash equivalents disclosed in note 3, and accumulated surplus as disclosed in the statement of financial position.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The municipality's risk to liquidity is a result of funds not being available to cover future commitments.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Credit risk relating to trade receivables is managed in accordance with the municipalities credit control and debt collection policy. The municipality credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad earned doubtful debt. Additional information relating to the analysis of consumer debtors is given in Note 6 to the annual financial statements.

Financial assets maximum exposure to credit risk at year end were as follows:

Financial instrument	2020	2019
ABSA Bank	5 316 301	8 574 172
ABSA BANK Short-term deposit	9 813 212	6 693 484
Receivables from exchange transactions	160 744 604	133 285 052
Receivables from non-exchange transactions	44 529 084	47 066 861

51. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus of R 1 755 292 610 and that the municipality's total assets exceed its liabilities by R 1 755 292 610.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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Amounts in Rand	2020	2019
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51. Going concern (continued)

The municipality incurred a deficit for the current financial year of R205 149 883 and R 102 967 761 in the previous financial year

The current liabilities amounting to R 561m exceeds current assets of R 346m by R 191m.

The receivables from exchange transactions increase from R 649m to R 764m, which resulted in a 15% increase as at 30 June 2020. The impairment provision also increased from R 520m to R 606m (14% increase) as at 30 June 2020.

The payables from exchange transactions increased from R 423m (Which also includes Eskom account of R 333m), to R 529m (Which also includes Eskom account of R 423m) which results in a 20% increase. The creditors payment period also increase from 246 days to 348 days as at 30 June 2020. The payables from exchange transactions outstanding for a period longer than 30 days amounted to R 466m (90%).

Operational commitments amounted to R 87m as at 30 June 2020 (2019: R 14m).

The cash equivalents amounted to R 5m as 30 June 2020 (2019: R 9m).

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality.

Despite the uncertainties which cast doubt on the municipality's ability to continue as a going concern, the municipality will continue to have the power to levy rates in the following financial period. The municipality is also likely to receive continued government funding, as has been disclosed in the Division of Revenue Act of 2019, as there are no current indications that government funding will be withheld from the municipality for any reason.

52. Events after the reporting date

The Municipality experienced a collapse of one of the main sewer pipeline in Hill Street and Cross/ Louw Street, which resulted in major repair work that had to be undertaken.

Moqhaka Local Municipality

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53. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Opening balance	-	1 338 223
Current year subscription / fee	2 799 790	2 460 270
Amount received / (paid) - current year	(2 614 363)	(3 798 493)
	185 427	-

Material losses through criminal conduct

There were no material losses incurred due to criminal conduct identified during the year by the municipality.

Audit fees

Opening balance	5 354 786	2 370 969
Current year fee	8 164 825	5 770 318
Interest Charged	732 558	409 083
Amount Paid - Current Year	-	(824 616)
Amount Paid - Previous Yearss	(4 264 791)	(2 370 969)
	9 987 378	5 354 785

PAYE and UIF

Opening balance	3 271 262	2 573 279
Current payroll deductions	42 692 391	37 207 490
Amount paid - current year	(42 454 969)	(36 509 507)
	3 508 684	3 271 262

Pension and Medical Aid Deductions

Opening balance	5 853 015	5 484 705
Current payroll deductions and council contribution	75 037 048	70 087 789
Amount paid - current year	(74 498 817)	(69 719 479)
	6 391 246	5 853 015

Skills Development Levy

Opening balance	194 564	169 277
Current payroll deductions and council contribution	2 467 046	2 304 076
Amount paid - current year	(2 455 857)	(2 278 789)
	205 753	194 564

Reticulation losses

Estimated electricity losses suffered by the municipality for the year under review are as follows:

Technical losses 4% (2019: 4%).

Non-Technical losses 14.25% (2019:13%).

Estimated line losses	15 118 996	13 407 496
Losses due to faulty meters, tampering or theft	53 872 307	43 563 619
	68 991 303	56 971 115

Estimated water losses suffered by the municipality for the year under review is are follows:

Water losses 35% (2019: 32%).

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

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53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Estimated water losses	16 997 561	18 447 816
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Councillors' arrear consumer accounts

The following councillors had arrear accounts outstanding for more than 90 days at:

Mareka J	24 862	17 079
Khunyeli JM	5 875	8 888
Khasoli MM	3 848	4 044
Phooko PJ	85 980	103 339
Mahlatsi SS	-	787
Rooskraans B	-	14 011
Magadela ZS	907	1 140
Makae HG	-	1 016
Mpondo VL	6 073	8 473
Mofokeng TA	27 139	22 681
Mokoena S	12 854	8 320
Mntuze ME	15 012	20 490
Mokotedi MV	1 120	-
Ramathibe MS	3 300	-
Nzunga ND	23 313	25 587
	210 283	235 855

54. Irregular expenditure

Opening balance as restated

Opening balance	502 137 716	478 020 095
Irregular Expenditure - current year	68 887 256	53 911 314
Less: Written off / approved by Council	-	(29 793 693)
Closing balance	571 024 972	502 137 716

55. Fruitless and wasteful expenditure

Opening balance as restated

Opening balance	36 357 592	42 887 639
Fruitless and wasteful expenditure - current year	16 375 744	7 880 225
Less: Written off / approved by Council	(17 369 164)	(14 410 272)
Closing balance	35 364 172	36 357 592

56. Unauthorised expenditure

Opening balance	258 907 629	530 664 380
Unauthorised expenditure - current year	173 833 764	112 487 751
Less: Written off / approved by Council	(146 419 880)	(384 244 502)
Closing balance	286 321 513	258 907 629

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57. Deviation from Supply Chain Management Regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officers and includes a note to the annual financial statements.

During the financial year there were instances where goods and services were procured and deviated from the normal supply chain management policy.

The reason for these deviations were documented and reported to the accounting officer who considered them and approved the deviation from the normal Supply Chain Management Regulations.

Description	Number of Deviations	Deviations 2020
Emergency	70	2 378 112
Sole Supplier	84	3 391 423
Urgent	31	654 608
	185	6 424 143

Description	Number of Deviations	Deviations 2019
Emergency	26	1 915 190
Sole Supplier	88	4 673 782
Urgent	44	1 431 223
	158	8 020 195

Moqhaka Local Municipality

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Notes to the Annual Financial Statements

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58. Commitments		
Capital commitments		
Approved and contracted for:		
• Infrastructure	22 033 534	27 371 218
Approved and not contracted for:		
• Infrastructure	27 712 741	22 534 082
Total capital commitments		
Approved and contracted for	22 033 534	27 371 218
Approved and not contracted for	27 712 741	22 534 082
	49 746 275	49 905 300
Other commitments		
Already contracted for but not provided for		
• General expenditure	87 489 289	14 308 453
Total operational commitments		
Approved and contracted for	87 489 289	14 308 453
Total commitments		
Total commitments		
Authorised capital expenditure	49 746 275	49 905 300
Authorised operational expenditure	87 489 289	14 308 453
	137 235 564	64 213 753
Infrastructure commitments approved and contracted for will be funded by grants from government. Other operational commitments approved and contracted for will be financed from the municipality's own funding.		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	1 049 974	1 049 974
- in second to fifth year inclusive	174 996	1 224 970
	1 224 970	2 274 944

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59. Non-Compliance with the MFMA

During the current financial year the following non-compliance issues were identified

Supply chain management regulations 12(1)(c) & (d) 17(1)(a) - (c)

Goods and services of a transaction value between R10,000 and R200,000 were procured without inviting at least three written price quotations from accredited prospective providers.

Deviations from competitive bidding were approved on the basis of it being an emergency or sole supplier.

Municipal Finance Management Act section 116(2)(b), (c)

The performances of all contractors were not monitored on a monthly basis.

Municipal Finance Management Act section 65 (e)

Creditors were not paid in 30 days as required by the Act

Municipal Finance Management Act section 52(d),

The budget implementation and state of financial affairs submission was not in accordance with the prescribed timeframe.

60. Budget differences

Material differences between budget and actual amounts

Refer to page 11 in the annual financial statements for an analysis of budget versus the actual amounts.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to Appendix E to the annual financial statements.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to Appendix E to the annual financial statements.